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Sent: Sunday, September 30, 2001 9:45 PM

To: Causey, Richard

Subject: FW: DCF analysis

**GOVERNMENT
EXHIBIT
820**

Crim. No. H-04-25 (S-2)

EXH019-00914

Water Business Analysis

(Dollars in millions)

	Azurix Original Profile	Azurix Large Profile	Azurix Medium Profile	Azurix Small Profile	UK Water Profile	US Water Profile	Azurix Cancun Profile
	(a)	(b)	(b)	(b)	(c)	(d)	(e)
Capital Invested in Typical Project	1,000	1,000	200	50	3,000	500	75
Return on Asset	14.00%	1.00%	12.00%	13.00%	4.75%	8.50%	16.00%
Cost of Capital (WACC)	7.00%	7.50%	8.00%	8.50%	4.50%	7.50%	9.00%
Spread	7.00%	3.50%	4.00%	4.50%	0.25%	1.00%	7.00%
Annual Excess Return (post tax)	46	23	5	1	5	3	3
Total Excess Return (post tax)	650	303	65	17	108	43	38
Ratio of NPV to Capital Invested	65.0%	30.3%	32.5%	34.4%	3.6%	8.7%	50.6%

Calculations to Achieve Total NPV of:	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Number of Transactions over life of company	1.5	3.3	15.4	58.1	9.2	23.1	26.4
Required Capital Investment	1,538	3,297	3,077	2,906	27,692	11,538	1,978
Potential Debt/Equity Mix	55%	55%	50%	40%	55%	55%	40%
Required Equity Investment	692	1,484	1,538	1,744	12,462	5,192	1,187

- (a) Original profile is similar to the large concession profile in the Azurix IPO model
- (b) The large, medium and small profiles are typical water concession transactions similar to the Azurix IPO model, but conservatively scaled back
- (c) UK water profile is an estimate based upon the current UK market and allowed returns
- (d) US water profile is an estimate based upon typical regulated returns in the US market
- (e) Azurix Cancun profile is based upon Azurix's actual experience and allowed returns